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Islamic Banking
Current Scenario & Way ahead

Presentation by
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Islamic Banking

Is this about Islam?

Or

about Banking?

What has Religion got to do with Economics & Banking?

Economics & Its Problems

- What is economics?

"To utilize the limited resources in a way that maximum needs and wants are met to ensure the well being of all members of the human society."

- The four basic economic problems:
  1. Determination of Priorities
  2. Allocation of Resources (Land, Labor, Capital, Entrepreneur)
  3. Distribution of Income
  4. Development

We will compare how Capitalism, Socialism and Islamic Economic system addresses to these problems.

Comparison of Capitalism & Socialism

	Capitalism	Socialism
1. Determination of Priorities	• Every individual has unconditional & absolute right to participate in any business to maximize profits • Concept of Selfish Interest • Supply & Demand will determine the priorities.	• No individual has the right to participate in any business independently. • State will determine the priorities as per the overall planning. • Concept of collective interest.
2. Allocation of Resources	• Market forces will decide where to invest resources	• Govt. will decide where to allocate resources
3. Development	• Market forces will decide	• Govt. will decide

Comparison of Capitalism & Socialism

	Capitalism	Socialism
4. Distribution of Income	• Land - Rent • Labor - Wages • Capital- Interest • Entrepreneur- Profits	• Land – Rent fixed by Govt. • Labor – Wages fixed by Govt.
Right to Wealth	Right to wealth is with the factors of production only.	Right to wealth is with the Govt. which then distributes it among the factors of production.

Flaws of Capitalism

- No bindings/ restrictions while maximizing profits.
- Blindly follows market forces that creates exploitation of labor & poor people.
- No moral value limitations.
- Monopolies & Cartels are created that exploit the society as a whole.
- Government & Industrialists join hands for mutual benefit and make laws that exploit common people.
- Imbalance in the distribution of income due to which concentration of wealth takes place.

Flaws of Socialism

- **The other extreme of not even giving the natural freedom.**
- **Perfect Planning is assumed to be the "Cure of all ills".**
- **Governments are assumed to be angels which can't commit a deliberate mistake.**
- **Cannot work without forceful dictatorship.**
- **Creates overall inefficiency in the society. There is no incentive to work efficiently as there is no individual profit motive.**

What is Islamic Economics

- Islam is a Deen which gives guidance for Aqaid, Ibadat, Mu'ashrat, Akhlaq & Mu'amalat.
- Hidaya- famous book of Fiqh has 70 % portion dedicated to Mu'amalat.
- The humanitarian goal of achieving the well being of all members of the human family cannot be attained by concentrating primarily on the material constituents of well-being and making maximization of wealth as the main objective of Economics.
- It is also necessary to raise the spiritual content of well being and reduce all the symptoms of anomie, like family disintegration, heavy interest based debt payments, conflict and tensions, crime, alcoholism, drug addiction, and mental illness, all indicating lack of inner happiness and contentment in the life of individuals.
- Capitalism as well as Socialism have both failed to lead mankind

  to such an overall well-being. It is therefore, necessary to lay down the contours of a new system which could help optimize human well-being as per the divine guidelines of Allah.

Islamic Economic System

- Islam accepts the market forces of supply and demand- Reference of Holy Quran.
- In fact Islam gave the concept of Market Forces 1300 years before Keynes presented the modern model of Economics in 1927.
- Islam accepts the right to private property and accepts the right to maximize profits. But these rights are not unbridled and un conditional rather there are some prohibitions.

Islamic Economic System- The prohibitions & considerations

1. **Divine Prohibitions:**

   Islam has prohibited some economic activities that are not allowed at any time at any place.(Interest, Gambling, Hoarding etc.)

2. **Govt. Restrictions:**

   Islam allows Govt. to intervene where it feels appropriate , but these restrictions are temporary as per the need of the time.

3. **Moral Considerations & Restrictions (ROIA)**

   Life in this world is temporary and there is an eternal life after words. One has to make this worldly life a way to get the maximum benefit in the life hereafter.

Factors of Production of Production in Islamic Economic System

- In Islam there are three factors of production

  1.Land 2. Labor 3. Entrepreneur

- Entrepreneur & Capital is a single factor of production.

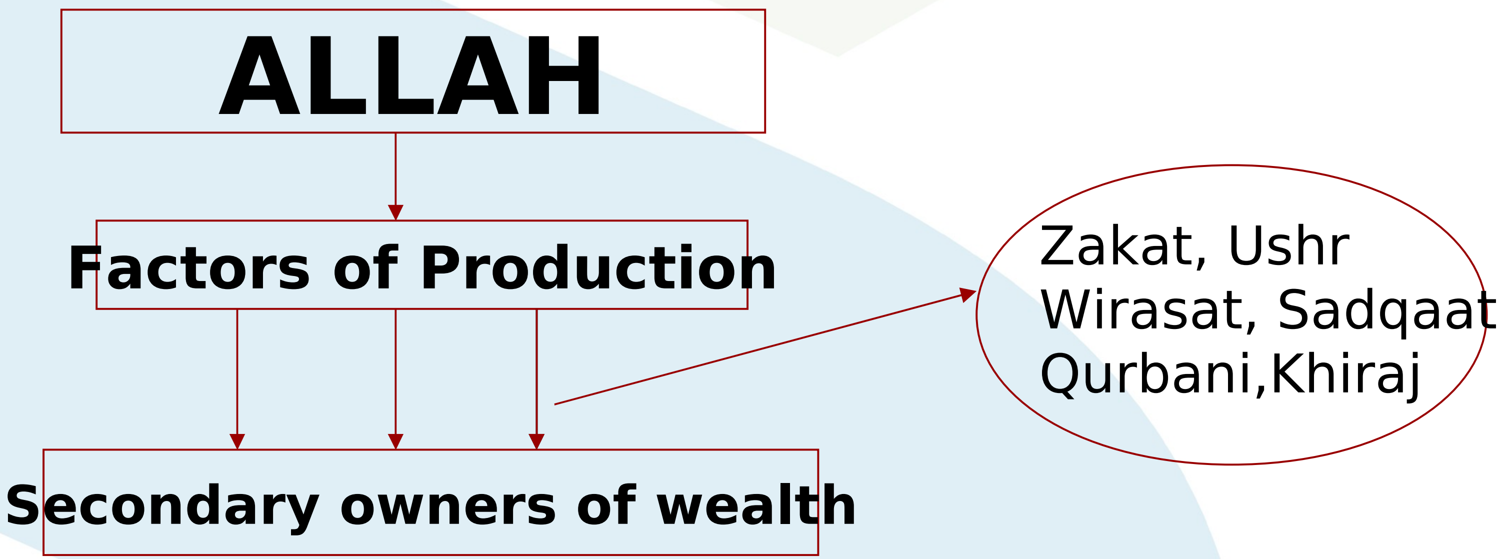
- As interest is Haram hence the risk of profit & loss is with the capital.

- Anyone investing capital must also take the risk of the investment.

Right to Wealth in Islam

- **In both Capitalism & Socialism the right to wealth is with those factors of production only that have taken part directly in the process of production.**

- **Islam believes that the original ownership of everything is with Allah and without Allah's "Taufeeq" no factor of production can produce anything.**



Summary of The Comparison

- Capitalism gives unbridled and un-conditional right to profit motive and private ownership, while socialism goes to other extreme by assuming that perfect planning by the govt. is the cure of all ills.
- Islam gives a balance view among the two extremes by recognizing the right to private ownership, market forces and profit motive but under the restrictions of:

1. Divine restrictions 2. Govt. restrictions 3. Moral considerations

- Islam ensures equitable distribution of wealth through the concept of primary and secondary ownership.
- All these factors combined have a cumulative effect of achieving the well being of all members of the human society.

Islamic Banking-the concept

- What is Islamic Banking?

  "Islamic Banking is interest free Asset Backed banking governed by the principles of Islamic Shariah"

- Islamic Banking distinguishes from Conventional Banking in four basic principles:

  1. Interest Free Transactions.
  2. Risk Sharing
  3. Asset & Service Backing
  4. Contractual Certainty(Gharar free contracts)

Islamic Banking Video

Islamic Banking- Current Scenario

Islamic Banking Pakistan
5 years Scenario

Year	2001	2002	2003	2004	2005
	2	3	4	10	11

2001
- Meezan Bank
- Al Baraka

2002
- Meezan Bank
- Al Baraka
- MCB

2003
- Meezan Bank
- Al Baraka
- MCB
- Alfalah

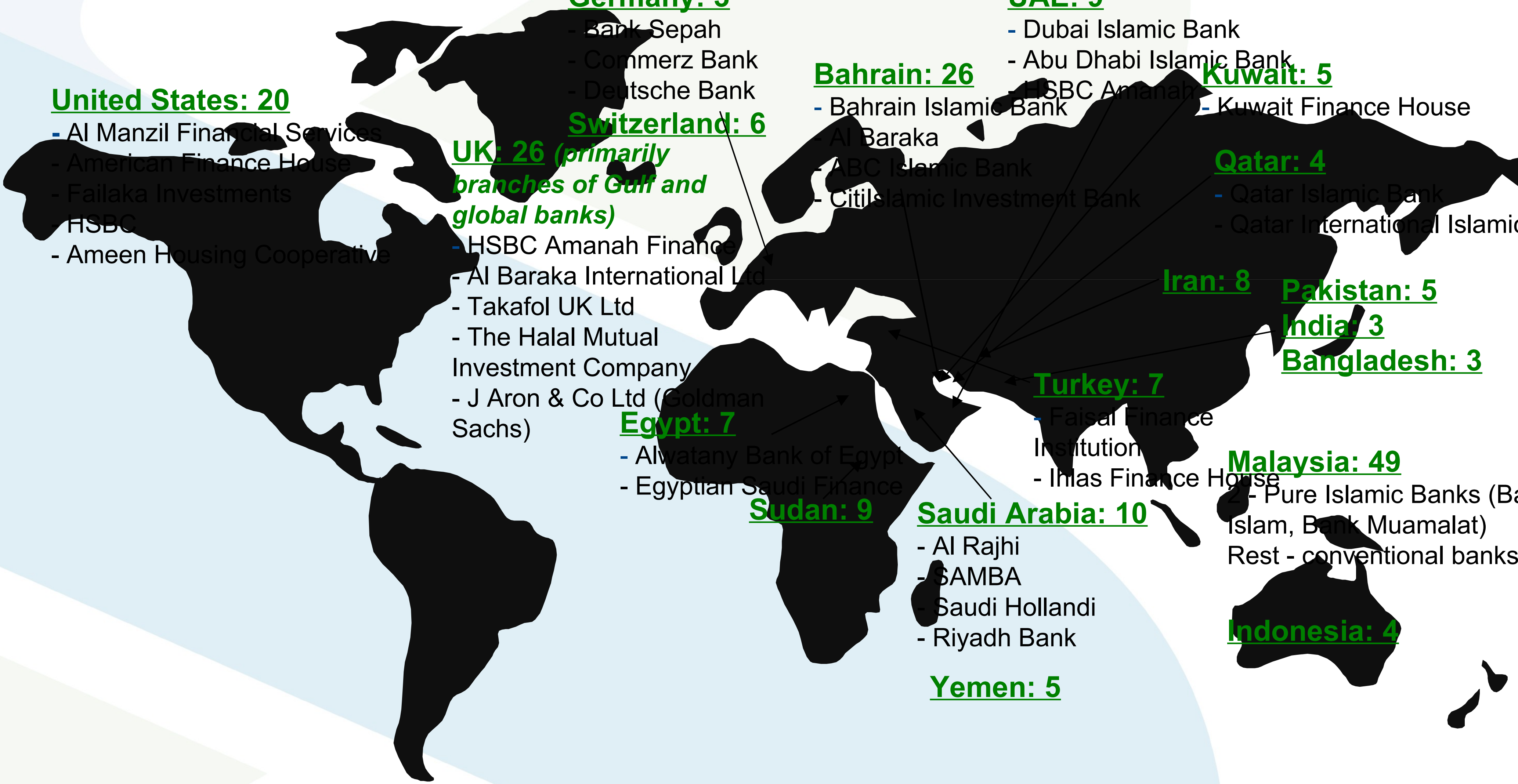
2004
- Meezan Bank
- Al Baraka
- MCB
- Alfalah
- SCB
- Bank AlHabib
- Habib AG Zur.
- Metropolitan
- Bank of Khyber
- Soneri Bank

2005
- Meezan Bank
- Al Baraka
- MCB
- Alfalah
- SCB
- Bank AlHabib
- Habib AG Zur.
- Metropolitan
- Bank of Khyber
- Soneri Bank
- HBL

Coming Up 2006:
- Bank Islami
- DIB
- Emirates Int'l
- First Dawood
- NBP
- ABN AMRO
- Askari
- PICCIC

- **In 2001, the industry comprised of just two players**
- **Currently there are 2 full fledged Islamic Banks, while 9 Banks have set up Islamic Banking Divisions (IBDs)**
- **In 2006, the industry is expected to be comprised of 6 Full fledged Islamic Banks and 12 Banks with IBDs**

Islamic products and services offered by 250+ Financial Institutions around the world



Note: Figure indicates number of Islamic FIs in the country. Only some of the key FIs are shown for each country

International Overview

- The size of Islamic Financial Industry has reached US$ 250 Bln. and its growing annually @ 15% per anum.
- 42 countries have Islamic Banking Institutions
- 27 Muslim countries including Bahrain, UAE, Saudi Arabia, Malaysia, Brunei and Pakistan
- 15 non-Muslim countries including USA, UK, Canada, Switzerland, South Africa and Australia

International Overview

Leading foreign Banks have opened Islamic Banking windows or subsidiaries such as:

- Standard Chartered Bank
- Citibank
- HSBC
- ABN AMRO
- UBS

International Overview

- In Feb 1999, Dow Jones introduced the Dow Jones Islamic Market Index (DJIM) of 600 companies world wide whose business complies with Islamic Shariah laws
- At present there are more than 105 Islamic Funds operational through out the world with a total fund base of over USD 3.50 billion

International Overview

- Governments of Bahrain ,Malaysia and now Pakistan have issued Islamic Bonds (Sukuk) in order to facilitate Islamic Banks in managing their liquidity.
- Issuance of these bonds has also paved the way for Shariah compliant Government borrowings.

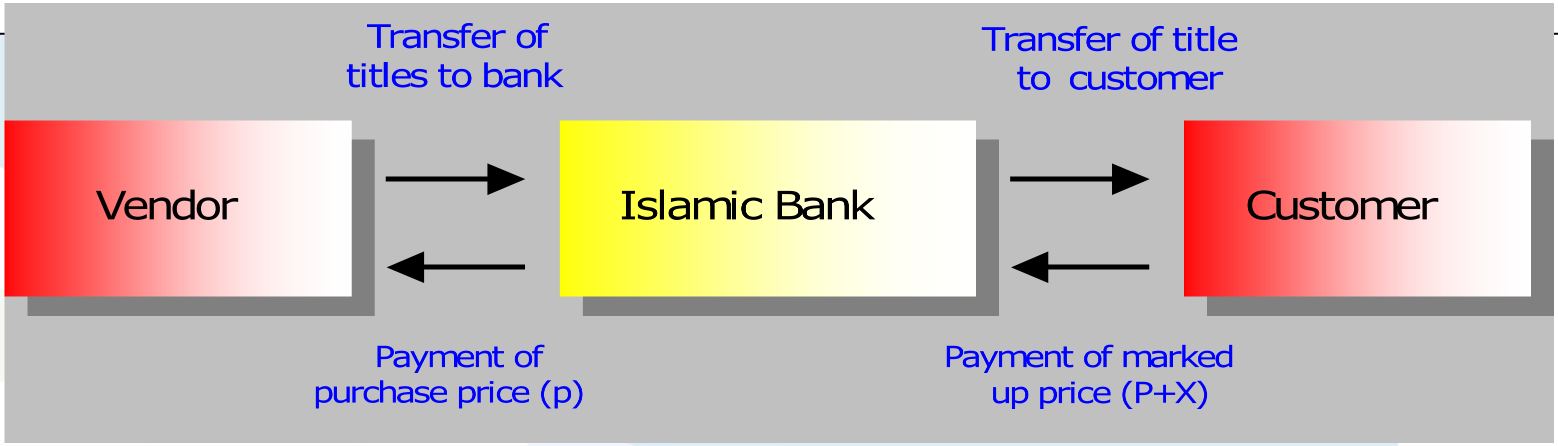
International Overview

- Institutions like Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Islamic Finance Services Board (IFSB) have been formed.
- These institutions are playing a key role in setting up and standardizing Shariah , Financial and Accounting standards for Islamic Financial Institutions.
- Due to these collective efforts Islamic banking is now recognized by IMF, World Bank and Basel Committee.

Structure of Key Islamic Products

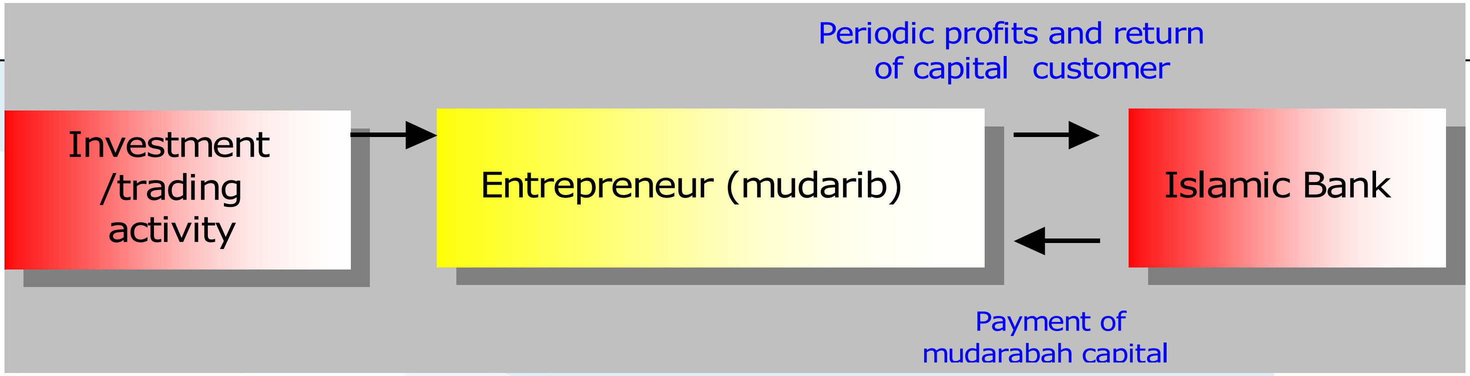
Murabaha- Concepts

- Murabaha refers to contracts in which a financial institution purchases goods upon the request of a client, who makes deferred payments that cover costs and agreed-upon profit margin for the financial institution.
- Murabaha is the most widely used instrument of Islamic finance with 75% of total contracts being Murabaha based. It is widely used in consumer and corporate financing as well as in subordinated or term financing. The responsibilities of the various parties to a Murabaha contract are set out below:
  - The bank buys asset from the vendor at P
  - The customer then buys the asset from the bank at marked up price (P+X), which is payable on a deferred payment basis.
  - The period covering the deferred payment is effectively the period of financing
  - The title to the assets is transferred to the customer at the time of the customer's purchase of the asset.



Mudaraba- Concepts

- A Mudaraba is a contract between investors and a financial institution that, acting as a silent partner, invests deposits in a commercial activity that earns each partner an agreed upon portion of the profits of the profits venture. The responsibilities of various the parties to a Mudaraba are
  - A (investor) provides B (Mudarib) all the capital to fund a specific enterprise.
  - B does not contribute capital but contributes management expertise (or entrepreneurship)
  - B is responsible for the day-to-day management of the enterprise and is entitled to deduct its management fee (Mudarib fee) from profits.
  - The Mudarib fee could be a fixed fee (to cover management expenses) and a percentage of the profits or a combination of the two.
  - The balance of the profit of the enterprise is payable to A
  - If the enterprise makes a loss, A (as the investor) has to bear all the losses unless the loss has resulted from negligence on the part of B (the Mudarib)



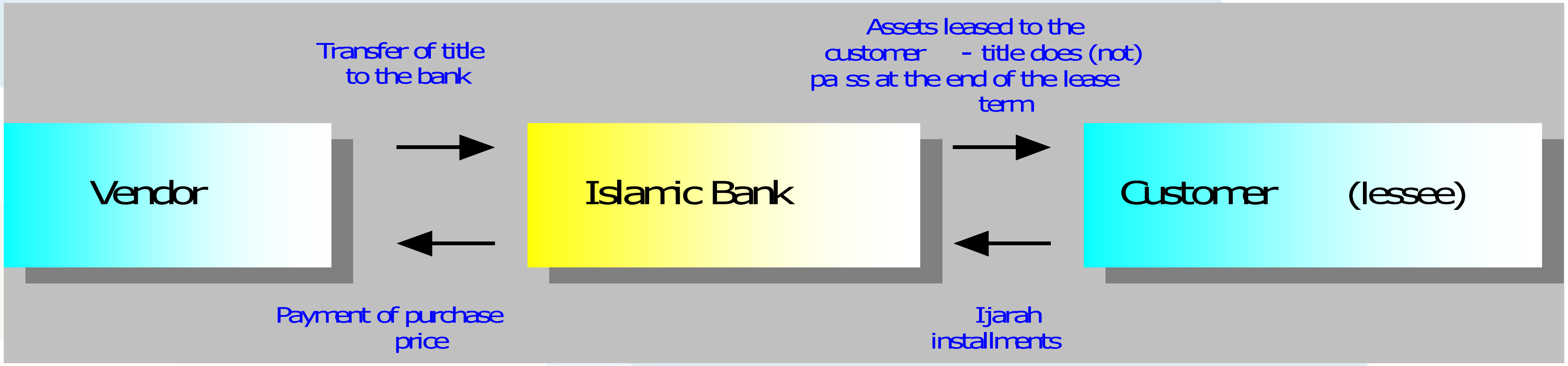
Musharaka- Concepts

- A <u>Musharaka</u> is a partnership between parties in which one or several parties supply working capital. Notes of participation sold to investors provide the funding. Musharaka is widely used for joint venture investments. The responsibilities of the various parties to a Musharaka contract are given below:
  - Both the investor and the enterprise contribute towards the capital
  - Under a "diminishing" Musharaka, the enterprise buys out the investor's share over a period of time.
  - The enterprise and the investor share in the profits according to the agreed proportions, which may be different from the proportions of capital contributed. Any losses of the enterprise will be borne by the investor and the enterprise according to their contributions



Ijara- Concepts

- An **Ijara** is a lease purchase contract in which a financial institution purchases capital equipment or property and leases it to an enterprise. The financial institution may either rent the equipment or receive a share of the profits earned through its use.
- **Ijara wa-Iqtina** is the same as Ijara except that the lessees can acquire ownership of the asset by making installment payments. The responsibilities of the various parties to an Ijara wa-Iqtina contract are given below:
  - The bank buys the assets from the vendor
  - The bank then leases the asset to the customer
  - The bank collects periodic rentals
  - The title of the asset remains with the bank under an operating Ijara.
  - Title passes to the customer under an Ijara muntahia bittamleek, either gradually over the period of the contract or at the end.



Musharakah

There are two types of Shirkah:

1. Shirkat-ul-Milk

   Joint ownership of two or more persons in a particular property

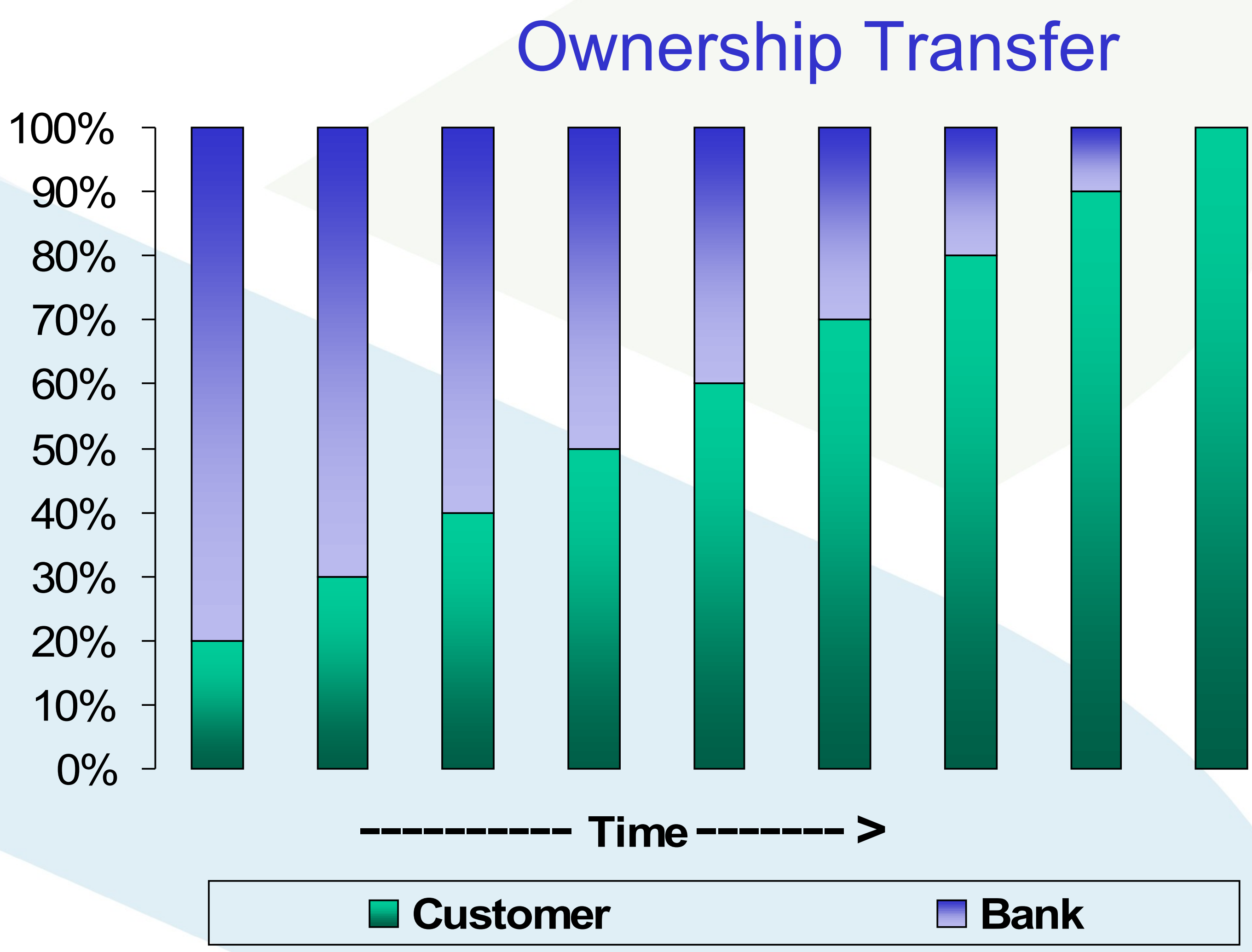
2. Shirkat-ul-Aqd

   A partnership affected by mutual contract. It can also be translated as a joint commercial enterprise

Diminishing Musharaka

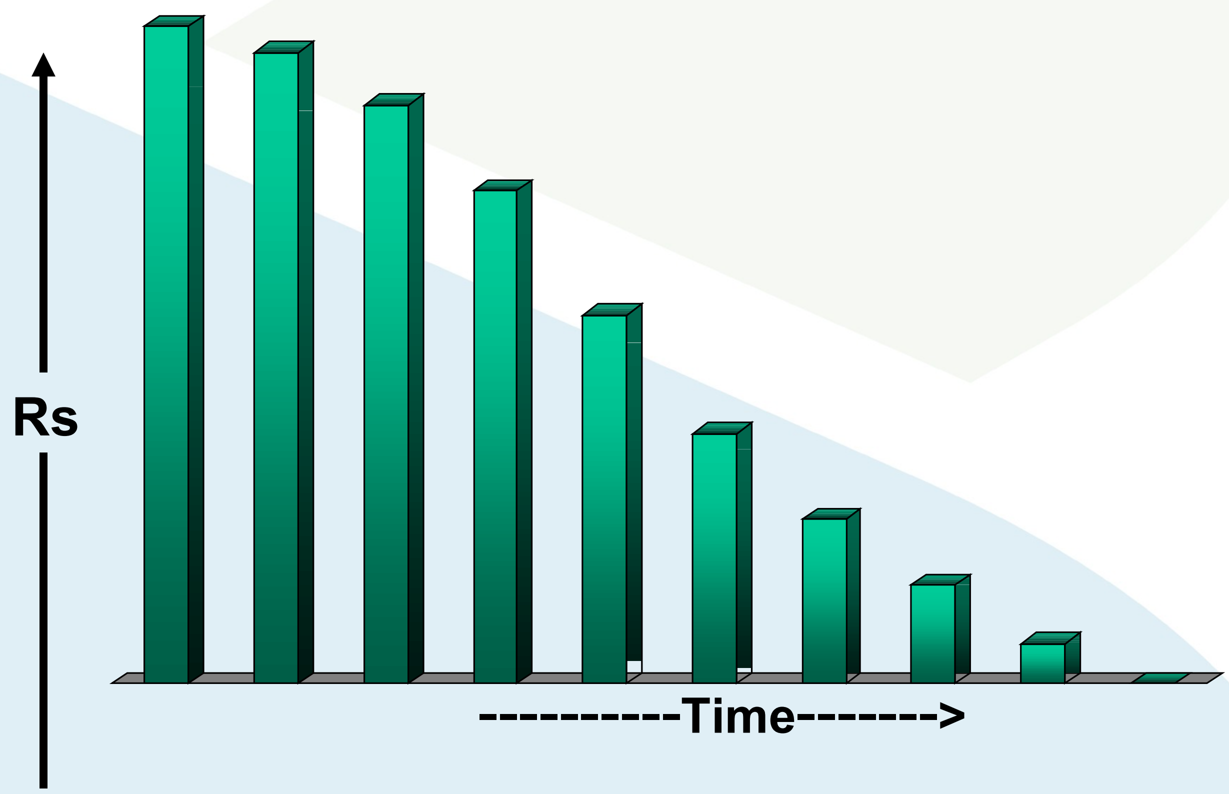
- Bank enters into a participation (Shirkat-ul-Milk) arrangement with the Customer
- Bank provides the larger share of the purchase price of the vehicle
- Bank rents out its share of the vehicle to the customer
- The customer makes regular scheduled investments to increase its equity in the property over the life of the transaction
- The monthly/ periodic payments are structured to reflect a portion of rent and a portion of purchase price i.e. EMI = Rent + Purchase of Share
- Once the customer has purchased all of the Bank's share the ownership will transfer to the customer with free and clear title to the vehicle

Diminishing Musharaka



Diminishing Musharaka

Monthly Rentals

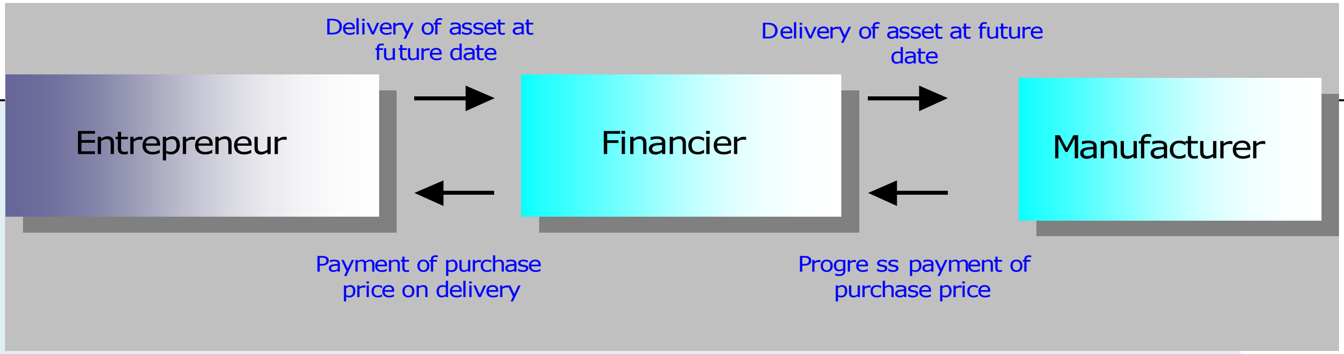


Product Comparison

Diminishing Musharakah	Ijarah
Joint ownership of asset	Rental arrangement
Bank earns through rent	Bank earns through rent
Ownership risk shared	Ownership risk with the Bank
Full/Partial prepayment allowed with profit for sale of Bank's share	Only Full prepayment allowed
Title with the customer	Title with the Bank
Any financing amount	Financing amount up to 1 million

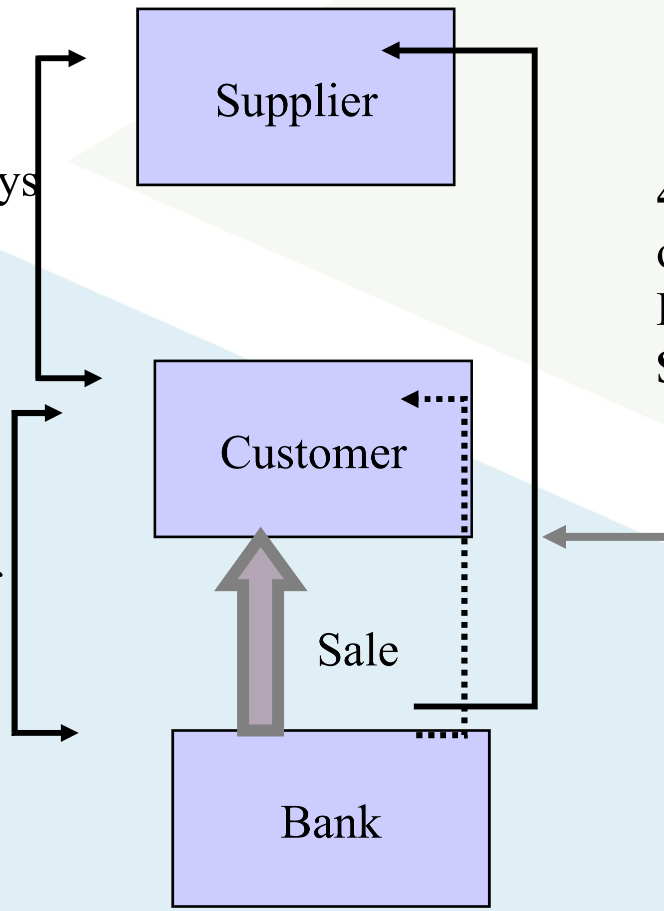
Concepts

- <u>Istisna'a</u> is primarily a deferred delivery sale contract similar to Salam. It is similar to conventional work in progress financing for capital project. In practice it is usually used for construction and trade finance such as pre-shipment export finance.



Short/ Medium Term Financing (Murabaha)

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1. Execution of **Murabaha** Agreement.

2. Bank appoints the Customer as its agent to buy the goods.

3. Customer buys the goods as Bank's agent. Cost: **$100**

4. Disbursement of the Facility. Facility Amount: **$100**

5. Under the Murabaha Agreement the Bank will immediately sell the goods at **$110** (cost plus a profit margin) payable on a deferred payment terms.

Features:

- Fixed rate financing only

Uses:

- Inventory Financing
- Financing commodity purchase

Tenor:

- 12-18 months

Risks:

- Credit Risk

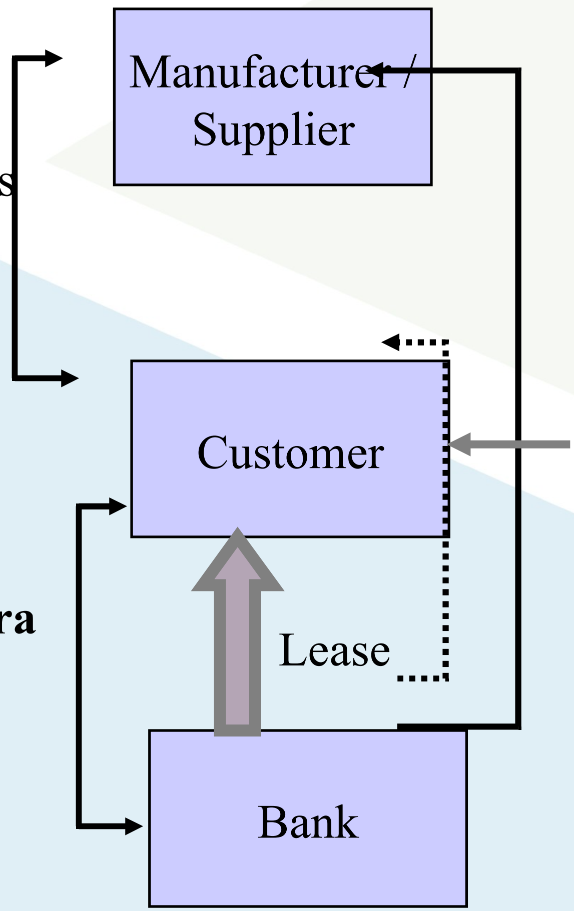
Finance Lease (Ijara)

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1. Customer buys the property as Bank's agent.
Cost: **$100**

2. Execution of **Ijara Agreement**



3. Disbursement of the Facility.
Facility Amount: **$100**

4. Bank appoints the Customer as its agent to buy the property.

5. Under the Ijara Agreement the Bank will lease the property immediately.

Features:

- Floating rate financing possible
- Can be used for refinancing

Uses:

- Financing Capital Expenditure
- Financing Big Ticket items like Aircraft, VLCCs, LNG Carriers, etc.

Tenor:

- 5-7 years

Risks:

- Credit Risk
- Performance Risk
- Cost Overruns
- Ownership Risk

Ijara…illustrative deal

Ijara is used to raise finance against an asset

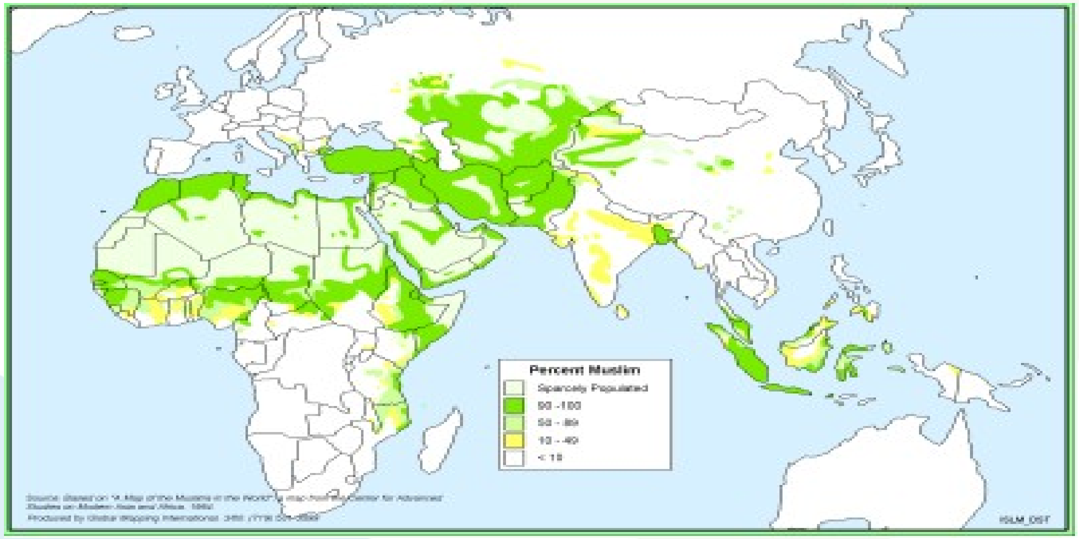
- **XYZ Real Estate Deal** : Sale/leaseback of existing properties to fund construction of new buildings
  - Client sells its existing asset to the Bank. The sale can be a beneficial transfer of ownership or actual legal title transfer
  - Bank leases the asset back to the client for the period of financing, against periodic lease rentals.
  - The rentals will comprise of only profit (during grace period) and both profit and principal payments (during amortisation period). The profit can be linked to a floating rate index, such as Libor.
  - At the end of the term, Bank transfers the asset back to the client either as a gift or at a nominal sum or at the termination price (if bullet repayment).
  - During the lease period, Bank is liable for insurance and major maintenance as owner of the property. However, Bank can appoint the client as its agent to perform these tasks

Sukuk Issuance - Key considerations

Sukuks are tradeable Islamic instruments, equivalent to conventional bonds.

- Provides access to the huge and growing Islamic liquidity pool, in addition to the conventional investor base
- Structure now well established with five sovereign/supranational issues ; initial R&D phase over
- Wide Shariah acceptability achieved for the underlying Ijarah structure - both in the GCC and the Malaysian markets
- Conventional investors in Europe and Far East now quite comfortable with Sukuks - as they consider it on par with conventional bond issuance.
- Demand pull from Islamic banks - Shariah scholars prefer Sukuk investments for liquidity management over Commodity Murabaha
- Pricing is on par with conventional bond issuance with similar terms
- Secondary market liquidity will develop gradually, as issuance picks up and investors get the option to trade in their existing 'hold' positions for new issues

The Islamic Sukuk Market



- The total worldwide Muslim population is **1.3 billion**.
- Sharia-compliant assets, growing over the last 20 years, represent an estimated **US$ 250 billion**.
- Assets are held by over **200 Islamic Financial Institutions**.
- Estimated annual growth for Islamic Assets is estimated at **15%.**
- Asia has taken the lead in the Sukuk market. Only in Malaysia, the value of outstanding Islamic corporate bonds stands at nearly **US$ 16 billion**, representing the interest in Shariah-compliant products.

- The world stock of sovereign Islamic bonds raised is approximately **US$ 3 billion**.
- To-date Sovereign / Supra-Sovereign issuance in the Islamic Sukuk Market has been from
  - **Malaysia, Qatar, Islamic Development Bank, Bahrain, the German State of Saxony and Govt. of Dubai (Oct 2004).**

The issuance of international Sukuk is one of the most significant mechanisms for raising finance in the international capital markets through Islamically acceptable structures.

The Demand for Sukuks

Anchor demand has traditionally come from the Middle East with healthy distribution into OIC countries, Asia and Europe.

Middle East

Total Investable Wealth in the Gulf region is estimated at US$ 1.5 Trillion.

Majority of Islamic Institutions and Islamic Assets are in the Gulf.

Increasing Demand from Conventional Investors

More and more of European and Asian mutual funds, pension managers, financial institutions and central banks are holding Sukuk paper as part of their diversification strategy.

- Bulk of the US$ 400 million IDB Sukuk was taken up by conventional investors.
- The State of Qatar's Global Sukuk issue was equally split between conventional and Islamic investors, at 52% and 48% respectively.

Geographically, approximately 70% of the State of Qatar and IDB Sukuks were placed in the Middle East, with the remaining being equally distributed into Asia and Europe.

(Source: BMA)

What are Sukuks ?

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A Sukuk represents:

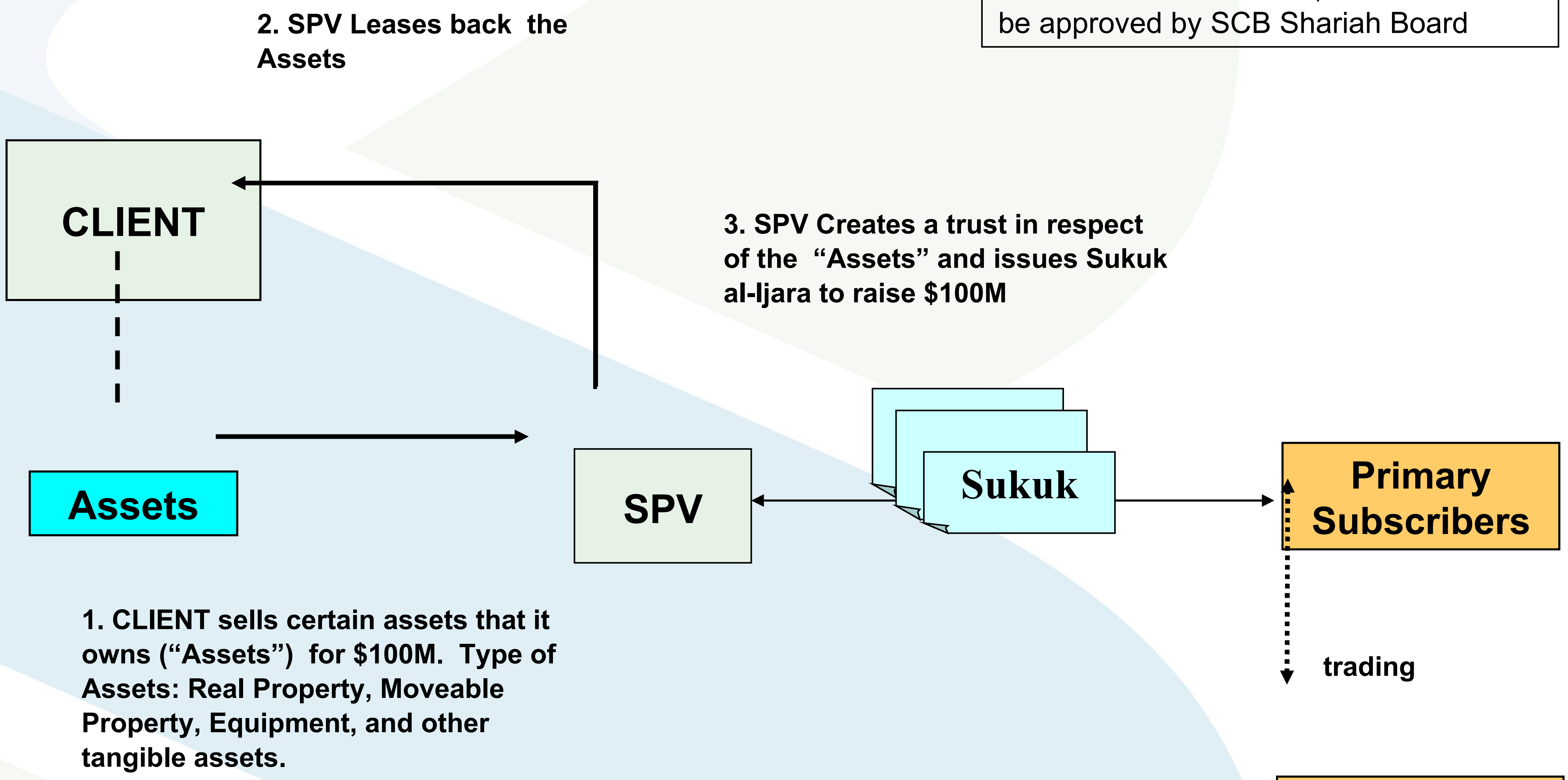
- An undivided proportionate ownership interest in an asset
- The corresponding right to the Islamically acceptable income streams generated by the asset.
- These current income streams are established and translated into tradable securities

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- Trust Notes or Certificates similar to Equipment Trust Certificates (ETCs) and Unit Trusts
- Issuer creates a trust over the leased Assets
- Trustee issues Sukuk to the Primary Subscribers (the beneficiaries under the trust) in the Primary Market
- Sukuk Holders have pro-rata undivided beneficial ownership of the leased Assets / Portfolio held in trust
    - As beneficial owners the Sukuk Holders are entitled to the income streams from the Leased Assets / Portfolio
- The Primary Subscribers can resell the Sukuk in the Secondary Market
- The Secondary Buyer will be the new pro-rata beneficial owner of the Leased Assets held in trust

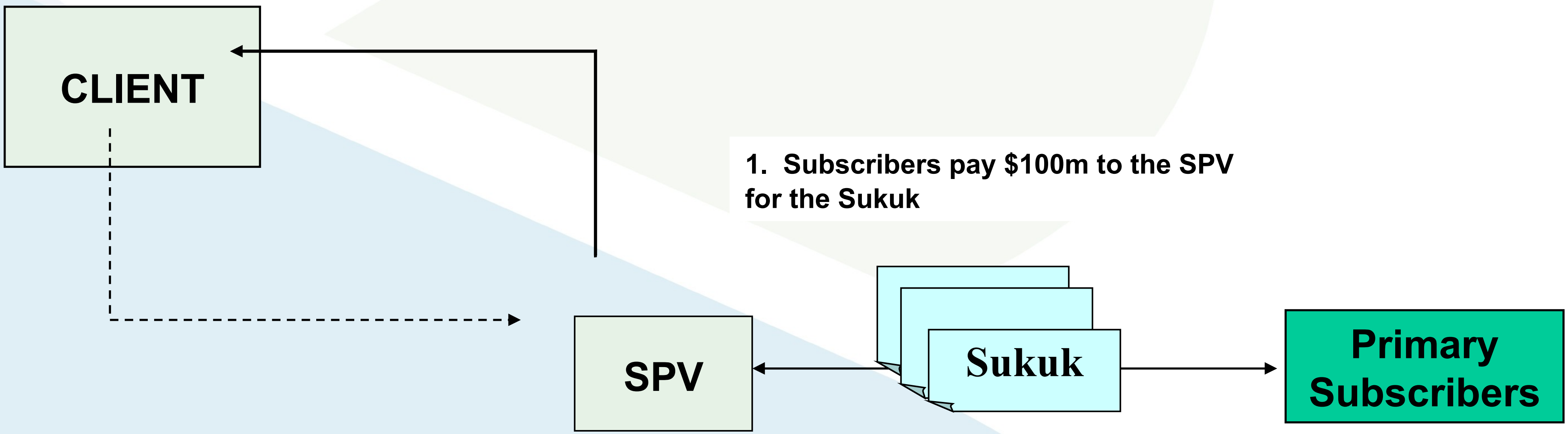
Typical Issuance Structure - Sale and Leaseback

The Sukuk can be listed, rated and will be approved by SCB Shariah Board



Flow of Funds - Acquisition & Rentals

2. SPV pays $100m as consideration for the Assets



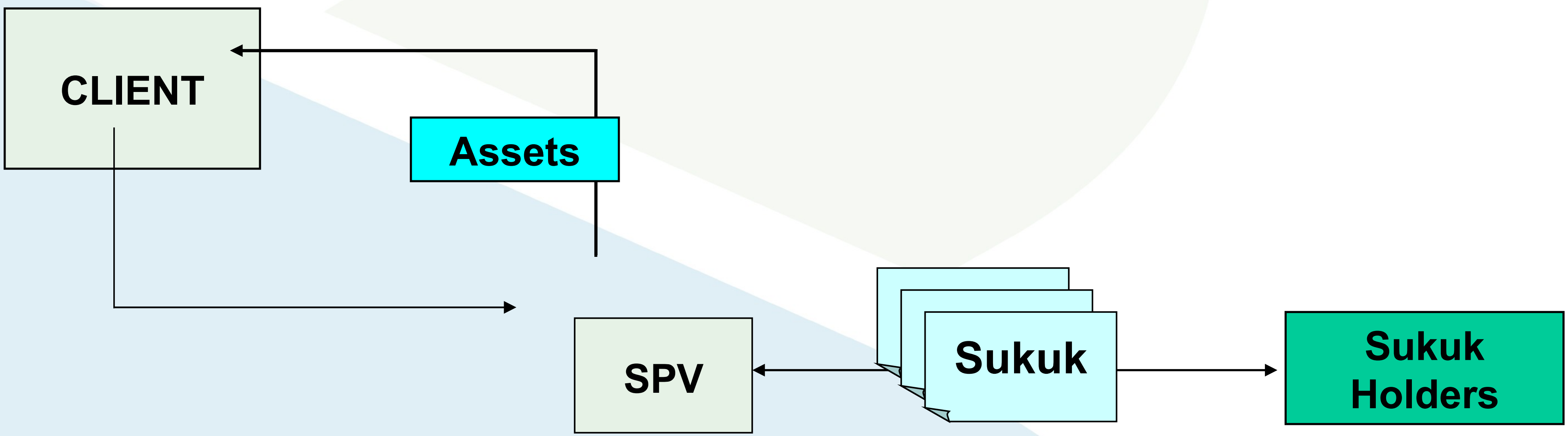
1. Subscribers pay $100m to the SPV for the Sukuk

3. CLIENT pays lease rentals. Lease Rentals could be Fixed or Floating, Amortising of non-Amortising (if non-Amortising, the last lease rental will include a bullet repayment of $100m)

4. SPV distributes the lease rentals to Sukuk Holders (as coupon payments)

Flow of Funds - Repayment & Maturity

1. SPV will "Put" the Assets to CLIENT



2. CLIENT will pay a nominal amount. Result: ownership of Assets revert back to CLIENT

Typical Sukuk Structure

Most Sukuk transactions to date have used the Sale & Lease back structure

Step 1:	Step 2:	Step 3:	Step 4:	Step 5:
Identification of assets forming the Sukuk Pool	**Sale of the Sukuk pool to an SPV**	**Leaseback of Sukuk Pool to an entity owned by Qatar**	**Issuance of the Sukuk securities**	**Redemption of Sukuk securities**
◆ Assets free from encumberances. ◆ Directly owned by the Seller or one of its entities.	◆ Establish a bankruptcy remote special purpose vehicle ("SPV") ◆ Sale of assets to SPV based on current market value ◆ SPV issues Sukuk for the same principal amount ◆ Receives subscription money from Sukuk holders ◆ Pays purchase price to the Seller.	◆ Lease-back of assets by SPV to the Seller (or another related entity) ◆ Lessee pays periodic rentals to SPV - matching the repayment profile and tenor of Sukuk	◆ SPV declares trust in the favor of Sukuk holders ("Trust Deed") ◆ Sukuks issued as a Reg S/144 A offering ◆ Each Sukuk represents right to receive periodic profit distribution from Sukuk Pool ◆ Appoint a co-trustee • To enforce the rights of Sukuk holders	◆ The Lessee will undertake to purchase the assets of the Sukuk Pool upon Maturity, at the Termination Price.

Transaction Process

- The client (i.e. the Seller) will sell the Assets (e.g. land parcels) to an SPV pursuant to a Purchase Agreement.
- The SPV will issue Trust Certificates to the investors.
  - The Trust Certificates represent an undivided beneficial ownership of the Trust Assets, primarily consisting of beneficial title to the Assets and rights under the related lease agreements.
  - Pursuant to a Declaration of Trust, the SPV will declare itself trustee to the Certificate holders for the Trust Assets.
- Proceeds received by the SPV from the sale of the Trust Certificates will be used to settle the purchase of the Assets from the Seller.
- The SPV will lease the Assets to GOP under a Master Ijarah Agreement for a period equal to the tenor of the Sukuk Issue. At the end of the tenor, GOP will acquire the Assets from the SPV and the lease will terminate.
  - Under the terms of the Master Ijarah Agreement, the SPV and GOP will execute consecutive, semi-annual leases to lease the Assets to GOP for the entire tenor.
  - The rental payments under the semi-annual leases to be entered into will be calculated based on LIBOR/Swap rate + [% p.a.], and GOP will be obligated to pay the Lease Rentals on the agreed lease rental payment dates;
- The SPV will distribute the rental payments received from GOP to the Certificate Holders.
- The SPV will execute a Sale Undertaking Deed, while GOP will execute a Purchase Undertaking Deed.
  - Under the Sale Undertaking Deed, the SPV will undertake to sell to GOP the title to the Assets to unwind the whole transaction if GOP is required to pay additional costs for the transaction as a result of a change in law.
  - Under the Purchase Undertaking Deed, GOP will undertake to purchase from the SPV the title to the Assets upon occurrence of any events of default or upon maturity of the lease agreement.

Summary of Issues to be considered

SPV Creation

- SPV can either be
  - Incorporated in foreign tax neutral jurisdiction and owned by a charitable trust, or
  - Incorporated in the country of the borrower, owned by
    - Charitable Trust
    - Majority owned by the borrower, with a golden share controlled by a Trustee.
    - Fully owned by the borrower, however, effective control vests with the the Trustee/ Manager to protect Sukuk holders interests.

Assets

- Possible Assets
  - Developmental Land ; Ports / Airports ;Dams, hospitals or other public buildings
  - Real estate / plant & machinery

Valuation

- Independent market valuation of the Asset will be required.

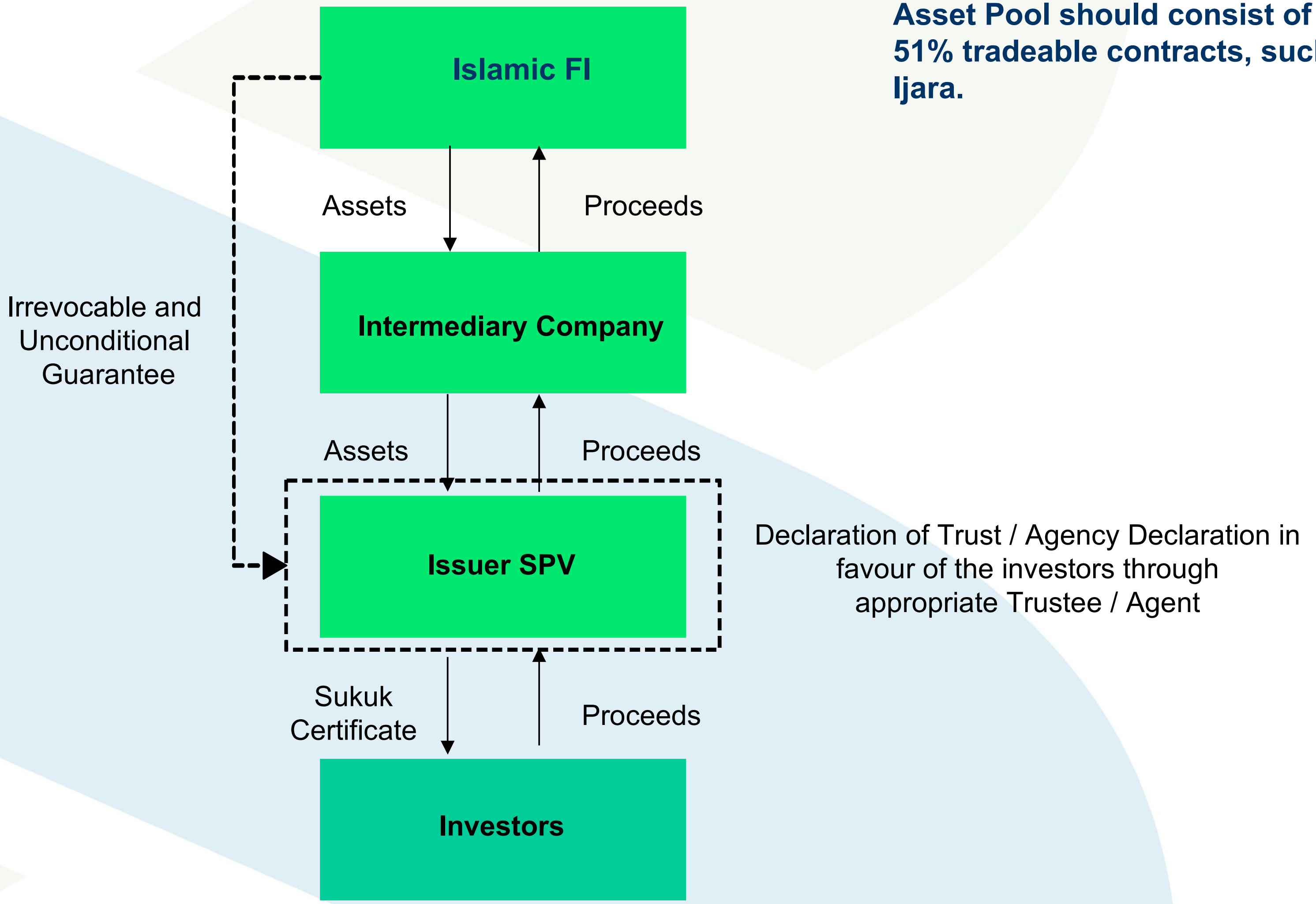
Insurance

- Self insurance no longer accepted by Shariah scholars.
- Insurance solutions are available.

Stamp duties / Taxes

- All stamp duties, taxes etc related to the sale / purchase of Assets will need to be considered (generally waived by sovereign issuers).

Variant - Structure for an Islamic FI



Asset Pool should consist of at least 51% tradeable contracts, such as Ijara.

Development of the Sukuk Market

Issues launched in the international market include:

1. USD 600 million Trust Certificates by Malaysia Global Sukuk Inc - 2002
2. USD 700 million Qatar Global Sukuk QSC - 2003
3. USD 400 million by the Islamic Development Bank - 2003
4. USD 100 million by Tabreed Financing Corp (UAE) - 2004
5. USD 250 milllion Issue by the Kingdom of Bahrain through Bahrain Monetary Agency – 2004
6. **USD 1000 million Issue by Govt. of Dubai – Nov 2004 – SCB acted as a Joint Lead Manager.**

Islamic Banking- Way Ahead

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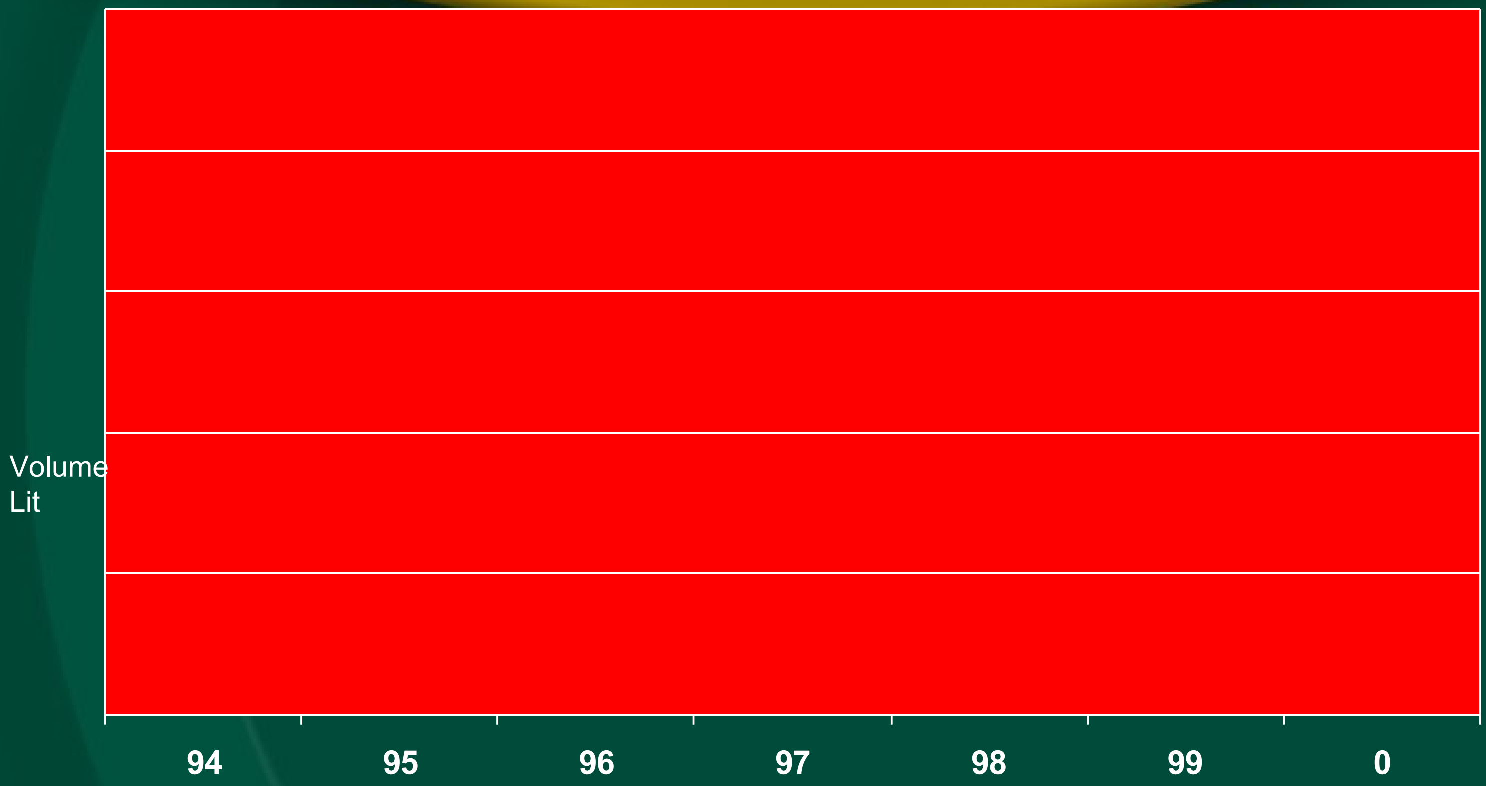
The current Islamic Banking movement is a Grass Root Level Demand Driven Phenomenon.

Its about time for the whole industry to pursue for the Islamic Banking Industry to reach the “Tipping Point”

The Tipping Point……

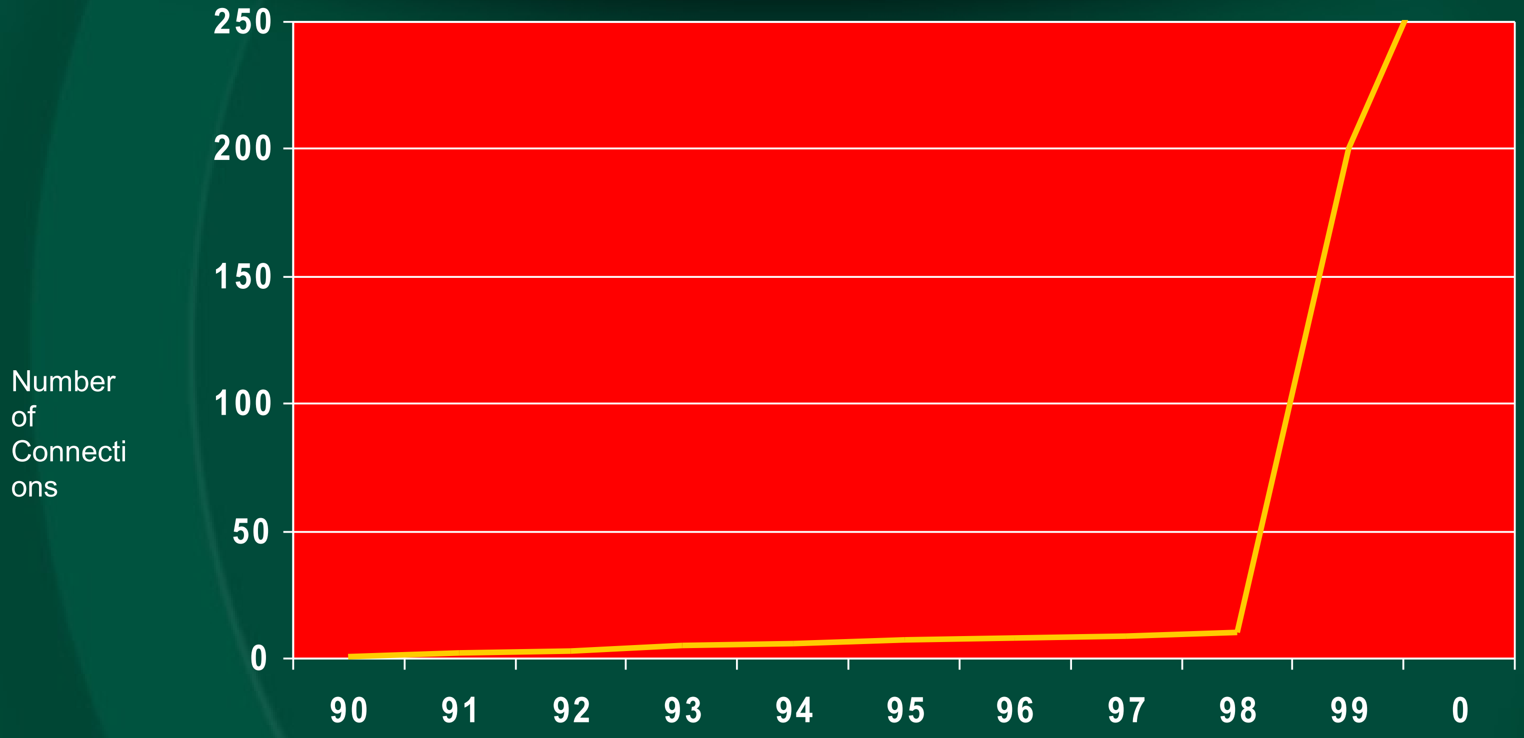
- “Tipping Point” is that magic moment when ideas, trends and social behaviors cross a threshold, tip and spread like wildfire.
- We are, as humans, heavily socialized to make a kind of rough approximation between cause and effect.
- Consider for example the paper folding example-geometric progression.
- As human beings we have a hard time with this kind of progression, because the end result-the effect-seems far out of proportion of the cause.
- We need to prepare ourselves for the possibility that sometimes big changes follow from small events, and that sometimes these changes can happen very quickly.

Mineral Water Industry Growth-Pakistan



Defining Direction

Mobile Phone Industry Growth-Pakistan



Defining Direction

To reach the Tipping Point for Islamic Finance

We need to understand :

- **What Motivates a customer towards Islamic Banking? (This includes both new & existing users of banking services)**
- **What is modern day Marketing?**
- **Who is Islamic Banking's Customer?**
- **How to market Islamic Banking to make it reach to the tipping point .**

What Motivates an individual?

Universal Motivating Factors:

1. Fear
2. Reward (in Cash or Kind)

Motivating Factor- Reward

وَمَآ ءَاتَيْتُم مِّن رِّبًا لِّيَرْبُوَا۟ فِىٓ أَمْوَٰلِ ٱلنَّاسِ فَلَا يَرْبُوا۟ عِندَ ٱللَّهِ ۖ

وَمَآ ءَاتَيْتُم مِّن زَكَوٰةٍ تُرِيدُونَ وَجْهَ ٱللَّهِ فَأُو۟لَـٰٓئِكَ هُمُ ٱلْمُضْعِفُونَ

"The interest which you give to increase the wealth of people, will have no increase with Allah: But that which you lay out for charity, seeking favor of Allah (He will increase): it is these who will get a recompense multiplied."

Ar Rum 39 (First Revelation)

Motivating Factor- Fear

يَٰٓأَيُّهَا
ٱلَّذِينَ ءَامَنُواْ ٱتَّقُواْ ٱللَّهَ وَذَرُواْ مَا بَقِيَ مِنَ ٱلرِّبَوٰٓاْ إِن كُنتُم مُّؤۡمِنِينَ
٢٧٨ فَإِن لَّمۡ تَفۡعَلُواْ فَأۡذَنُواْ بِحَرۡبٖ مِّنَ ٱللَّهِ وَرَسُولِهِۦۖ وَإِن تُبۡتُمۡ فَلَكُمۡ
رُءُوسُ أَمۡوَٰلِكُمۡ لَا تَظۡلِمُونَ وَلَا تُظۡلَمُونَ ٢٧٩

who believe, Fear Allah and give up what remains of your demand for Interest, if you are indeed a believer. If you do not, then you are warned of the declaration of war from Allah and His Messenger; But if you turn back you shall have your principal: Deal not unjustly and you shall not be dealt with unjustly.”

Al Baqarah 278 - 279 (Fourth Revelation)

Motivating Factor- Fear

From Hazrat Abu Hurayrah (RA):

The Prophet, peace be on him, said:

"Riba has seventy segments, the least serious being equivalent to a man committing adultery with his own mother." (Ibn Majah)

The Way Forward………

1. Product Innovation- Ensuring innovative Shariah compliant products. Starts movement towards Micro financing and Musharaka transactions- (Venture Capital Model)

2. Service Differentiation (Trained staff providing top quality service)

3. Service Quality (Top quality service to ensure that service standards of IB Institutions is at par with conventional)

4. Aggressive Marketing to ensure that Islamic Banking reaches the tipping point in quickest possible time.

Islamic Banking- Way Ahead

KEY ACTION POINTS:

- TO ENSURE CONSTANT SUPPLY OF MANPOWER TRAINED IN BOTH BANKING AND THE *SHARÎ'AH*
- ESTABLISHMENT OF ISLAMIC MONEY MARKET
- TAX REFORMS FOR ENSURE LEVEL PLAYING FIELD
- RESOLVE *FIQHI* DISPUTES AND ADDRESS TO SHORTAGE OF RECOGNIZED & QUALIFIED SHARIAH SCHOLARS
- STANDARDIZATION OF TERMS AND MODES AT A FASTER PACE
- RESEARCH AND DEVELOPMENT INSTITUTIONSTO INTRODUCE INNOVATIVE PRODUCTS

For that to happen, all of us need to make Sincere Efforts with Patience and Persistence

Thank You!